

Message Text

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ACTION NEA-10

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E. O. 11652: GDS
TAGS: ECON, IS
SUBJECT: THE ISRAELI ECONOMIC SITUATION ON THE EVE OF
CAMP DAVID

REF: CAIRO 19377

1. BEGIN SUMMARY: ON THE EVE OF THE CAMP DAVID MEETING,
ISRAEL IS IN BETTER ECONOMIC SHAPE THAN AT ANY TIME SINCE
1973. THERE ARE NO MAJOR ECONOMIC CONSTRAINTS WHICH MIGHT
INFLUENCE THE ISRAELI NEGOTIATING STANCE DURING THIS MEET-
ING. END SUMMARY.

2. THE ISRAELI ECONOMY TODAY IS IN BETTER SHAPE THAN AT ANY
TIME SINCE THE 1973 WAR. THE BALANCE OF PAYMENTS DEFICIT
IS CONTINUING TO DECLINE BECAUSE OF THE DRAMATIC GROWTH IN
EXPORTS AND FOREIGN EXCHANGE RESERVES ARE RISING. ECONOMIC
GROWTH, WHICH HAS BEEN NEAR ZERO IN THE LAST FEW YEARS, IS
EXPECTED TO REACH 6 PERCENT THIS YEAR. REAL WAGES ARE IN-
CREASING. THE MAJOR DARK SPOT IN THE ECONOMY IS INFLATION,
WHICH IS EXPECTED TO BE CLOSE TO 40 PERCENT THIS YEAR--
ABOUT THE SAME AS IN 1977 AND MUCH HIGHER THAN PREDICTED BY
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THE GOVERNMENT.

3. IN THESE CIRCUMSTANCES, PRIME MINISTER BEGIN IS NOT
LIKELY TO BE INFLUENCED IN THE PEACE NEGOTIATIONS BY ECO-
NOMIC FACTORS. THIS REFLECTS BOTH HIS GENERAL DISINTEREST
IN ECONOMIC MATTERS AND THE LIKELIHOOD THAT, REGARDLESS OF
THE OUTCOME OF THE CAMP DAVID TALKS, THE ISRAELI ECONOMY

CAN BE EXPECTED TO CONTINUE TO IMPROVE FOR THE FORESEEABLE FUTURE.

4. THIS DOES NOT IGNORE THE FACT THAT THE LEVEL OF ECONOMIC WELL-BEING IS IMPORTANT FOR THIS GOVERNMENT, WHOSE ELECTION VICTORY IN SOME PART WAS ATTRIBUTED TO DISSATISFACTION BY VOTERS WITH THE ECONOMIC POLICIES OF THE PREVIOUS GOVERNMENT. THERE ARE, OF COURSE, ECONOMIC FACTORS WHICH COULD CAUSE PROBLEMS FROM A POLITICAL VIEWPOINT, SUCH AS INFLATION AND THE LEVEL OF FUTURE WAGE INCREASES. UP TO NOW, HOWEVER, THE ISRAELI PUBLIC HAS FOCUSED ALMOST ENTIRELY ON THE PERFORMANCE OF THE LIKUD GOVERNMENT IN INTERNATIONAL AFFAIRS AND THE ECONOMY IS NOT NOW A POLITICAL PROBLEM FOR BEGIN.

5. WE ASSUME THAT THE GOI HAS CONSIDERED THE POSSIBILITY THAT A BREAKDOWN IN THE PEACE NEGOTIATIONS WHICH WAS VIEWED IN THE US AS DUE MAINLY TO ISRAELI POLICIES COULD RESULT, DESPITE WHAT WASHINGTON SAYS, IN A REDUCTION IN US FINANCIAL ASSISTANCE AT SOME FUTURE DATE. OUR ASSESSMENT IS THAT ELIMINATION OF USG FINANCIAL ASSISTANCE, IF THE US WEAPONS KEPT COMING, COULD BE OVERCOME BY ISRAEL, AT LEAST IN THE SHORT TERM; AND IT IS LIKELY THAT THE GOI HAS COME TO THE SAME CONCLUSION. IT WOULD MEAN A GREAT DEAL OF BELT TIGHTENING BY THE ISRAELI CONSUMER AND THERE WOULD BE SOME ECONOMIC DISLOCATION IN THE SHORT-RUN, BUT ISRAEL COULD

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CONTINUE TO OPERATE A VIABLE ECONOMY WHICH COULD SATISFY ITS MINIMUM DEFENSE REQUIREMENT AND AN ACCEPTABLE LEVEL OF CIVILIAN CONSUMPTION. IT WOULD BE PAINFUL; THERE WOULD BE SIGNIFICANT POLITICAL COSTS FOR THE BEGIN GOVERNMENT, BUT IT COULD BE DONE.

6. WHILE THE CURRENT ECONOMIC SITUATION WILL NOT PUSH BEGIN INTO MODIFYING HIS NEGOTIATING STANCE, NEITHER WILL THE PROSPECTS OF IMPROVED ECONOMIC ACTIVITY AS A RESULT OF PEACE PULL HIM INTO A MORE MODERATE POSITION. MOST ISRAELIS EXPRESS THE EXPECTATION THAT PEACE WITH EGYPT WILL PRESENT THEM WITH GREATER ECONOMIC POSSIBILITIES SUCH AS INCREASED TRADE, TOURISM, INVESTMENT, JOINT INDUSTRIAL PROJECTS, ETC., AS WELL AS AN EVENTUAL REDUCTION IN THE BURDEN OF DEFENSE EXPENDITURES. IN THE SHORTER TERM, THE GOI SEEMS TO BE OPERATING ON THE ASSUMPTION THAT DEFENSE EXPENDITURES WILL NOT DECREASE IN ABSOLUTE TERMS, INDEED THEY MAY INCREASE TO COMPENSATE FOR GOI TERRITORIAL COMPROMISES, AND THAT ECONOMIC TIES WITH EGYPT WILL TAKE SOME TIME TO DEVELOP. FOR ISRAEL, THEREFORE, THE ECONOMIC BENEFITS OF PEACE ARE NOT LARGE ENOUGH OR IMMEDIATE ENOUGH TO INFLUENCE BEGIN'S POSITIONS AT CAMP DAVID. LEWIS

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